

MINUTES
LAS VEGAS-CLARK COUNTY LIBRARY DISTRICT
BOARD OF TRUSTEES FINANCE AND AUDIT COMMITTEE MEETING
LAS VEGAS, NEVADA
JUNE 8, 2006
(approved July 13, 2006)

The Finance and Audit Committee of the Board of Trustees of the Las Vegas-Clark County Library District met in the Clark County Library, Las Vegas, Nevada, at 4:30 p.m., Thursday, June 8, 2006.

Present:

Board: A. Arthurholtz, Chair
L. Overstreet, Member
F. Sponer, Member
T. Wong, Member
K. Benavidez, Member
K. Carter
V. Hoggard

Counsel: G. Welt

Staff: Daniel L. Walters, Executive Director
Fred James, Deputy Director, C.F.O.
Numerous staff

Guests: Robert Kasner, Mellon Private Wealth Management
Theodore E. Schlazer, Mellon Private Wealth Management
Rick Phillips, Olympus Investment Management, LLC

Andrea Arthurholtz, Chair, called the meeting to order at 4:46 p.m.

Roll Call All members listed above represent a quorum. Trustee Hoggard arrived at 4:47 p.m., Trustee Sponer arrived at 4:48 p.m., and Counsel Welt arrived at 4:51 p.m.

Agenda Trustee Benavidez moved to approve the Agenda as proposed. There was no opposition and the motion carried.

Presentation of an investment report regarding the District's investment program (Item III.)

Deputy Director, C.F.O. Fred James presented this item. Mr. James reviewed the background for this presentation: at its April 14, 2006 meeting, Trustees inquired about the District's investment income and alternatives to increase the amount earned. During the meeting it was suggested that the staff invite the District's investment advisors to a future committee meeting to review the District's current investment program.

Mr. James began by explaining that the Business Office does an intense cash flow analysis each month and projects receivables over several months. The investment accounts are always changing because the District always has investments maturing and expenditures coming due. The reason for this is that the District receives the bulk of property tax and consolidated tax (CTX) revenue between November and February. Between July and September, very little property tax and CTX revenue comes into the District. This is true for all public agencies. For example, if the investment figure shown on the yearly report is \$7

million, that is not a lump sum available to be invested for the entire year. Available funds are invested for a specific period (such as three, six or nine months) based on cash flow projections and/or used to pay bills until the property tax and CTX revenue comes in. The District then uses the property tax and CTX revenue when it comes in to build the investment accounts back up.

Mr. James introduced Robert Kasner and Theodore E. Schlazer of Mellon Private Wealth Management (Mellon) to give information on the District funds they have under management. Mr. Kasner and Mr. Schlazer gave a brief background of their history working with the District as well as the background of the members of their team. Kasner and Schlazer also described the resources Mellon has available for its clients.

Mr. Kasner outlined how his firm invests the money the District places with Mellon. The General Fund, the Debt Service Fund, and a large portion of the Capital Projects Fund are under management by Mellon and are in three separate pools.

Investment in each fund is driven by the District's cash flow requirements. For example, in the General Fund, different amounts of money are invested for a period of one month to one year, again depending on the District's cash flow requirements. Due to the recent frequent rise in interest rates, Mr. Kasner has suggested to Mr. James that the money available be invested more in short term instruments, so District can take advantage of the next rise in interest rates. The District has a bond payment due in February, so the amount available in the Debt Service Fund for investment is tied to a maturity date prior to the payment. Kasner said the savings in the Capital Projects Fund can be used for longer term investment products of one to two years, due to the nature of timing for the construction projects.

Mr. Kasner then reviewed with the Committee charts showing the allocation of assets in each fund, with rates of return over the life of the Fund, the last twelve months, and the year to date.

Trustee Sponer wanted to confirm the Capital Projects Fund ending balance which is \$16.67 million as of April 30, 2006, as shown on the charts. Mr. Kasner confirmed that total is what the District has in Mellon's account. Mr. James clarified that Mellon has part of the Capital Projects Fund with the remaining balance of \$3.5 million handled by Olympus Investment Management, the next presenter.

Executive Director Walters clarified that the balance in the Capital Projects Fund is affected by two categories of transfers- the first category is budget transfers. As outlined previously by Mr. James, the revenues that make up the amount in the adopted budget come in throughout the year and the entire amount is not available to transfer until the close of the fiscal year. The second category is the result of a transfer usually done in January following the close of an audit year and that cash is real and immediately available for investment. The reason for the huge jumps in the Capital Projects fund balance depends on

timing- the transfer would be either cash or budgeted but not yet available for investment.

Trustee Sponer asked whether the District was required to invest only in Treasury bonds. Mr. Walters asked Mr. Kasner to describe what investment products are options for the District as a public agency under Nevada law. Mr. Kasner replied that that Nevada law limits investments to fixed income products such as bonds, no stocks or futures. The bonds can include government bonds or corporate bonds rated double Aa or better. The District's investment policy limits investment to Treasury and Agency bonds, which was Nevada law until 2001. In 2001, the Legislature changed the law to allow asset-backed mortgages and corporate bonds. The District has not changed its investment policy to do so. Kasner also pointed out that most other public agencies in Nevada have not changed their policies either.

Trustee Sponer asked if the District is allowed to purchase certificates of deposit (CDs). Mr. Kasner replied that since CDs are insured up to \$100,000, that would be allowed under Nevada law. Kasner continued to say that the certificate would have to be collateralized in order to get the security required. The rate earned by the District would be greater if the CD did not have to be collateralized.

Trustee Sponer asked whether the District could realize additional revenue by breaking out \$1 million into ten separate CDs. Kasner replied that the work required for the large number of separate transactions may not realize any additional gain, and may involve additional work for District staff. In addition, the returns shown on the charts presented to the Committee show the rate of return since the District first started the Capital Projects Fund in 2003. When the District began, interest rates were low and have increased in the three years since. Mr. James reminded Committee members that as investments mature, the money is reinvested at the higher rate.

Mr. Walters suggested the Committee review the District's investment policy since it has been several years since the last review. Nevada law has changed to allow more investment options for public agencies and the Committee can examine the policy and decide if adjustments should be made to make the District's policy less restrictive within the framework of Nevada law.

Trustee Overstreet asked whether the fee charged by Mellon is fixed or based on the performance of the assets under management. Mr. Kasner replied that his fee is fixed.

Trustee Overstreet asked whether the undesignated funds balance is physically with Mellon and available for investment or is it in a separate bank account. Mr. James replied that part of the undesignated funds balance is used to pay the District's day-to-day expenses and the balance fluctuates. Any excess is invested and is in the General Fund investment pool managed by Mellon.

Trustee Wong asked if Mr. Kasner knew why other public agencies in Nevada had not changed their investment policies and whether changing the District's investment policy would greatly increase the returns. Mr. Kasner replied the changes to Nevada law included increasing the amount of time public agencies could hold investments from 5 to 10 years. The District does not invest for that length of time. Whether the District would benefit from investing in mortgages and asset-backed securities, now allowed by Nevada law, would depend on the situation. At this time, the benefit the District would receive would not justify the increased risk. Kasner suggested that it might be a good idea to have the option available as part of the District's investment policy for future use. Kasner also reminded the Committee that the District has never had funds available to fully take advantage of long-term investment options.

Mr. James then introduced Rick Phillips of Olympus Investment Management, LLC (Olympus). James advised the Committee that Mr. Phillips oversees the District's portion of the investment program administered by the Nevada State Treasurer's office, NVEST. Phillips' firm has been working for the District since February and manages \$3.5 million of the District's Capital Projects Fund.

James again reminded the Committee that while the District has budgeted \$10 million to transfer into the Capital Projects Fund, all funds are not available July 1. The money builds up through the fiscal year. As the money builds up, it is moved to either Mellon or Olympus, depending on how long the money will be invested. James said the District is using Mellon for short-term investments and Olympus for money available to invest for a longer period of time.

Mr. Phillips gave a brief overview of his experience working for the City of Las Vegas and Clark County. He then described the NVEST program. NVEST is an extended term investment program designed and administered by the State Treasurer's Office and authorized by the legislature. NVEST is an eligible investment that provides public agencies such as the LVCCLD with a simple tool for increasing investment return without taking inappropriate risks. Funds are held by the State's Custodian, Wells Fargo Bank, and are invested in separately managed accounts, not in co-mingled funds. There is approximately \$300 million currently invested through the NVEST program.

Mr. Phillips outlined the foundation of basic portfolio management which he defined as ensuring the safety of principal and the maintenance of liquidity while obtaining the highest yield possible given those requirements. Diversification into various fixed-income investments such as U.S. Treasury Bonds, Federal Agencies, Callable and Non-Callable Bonds, Money Market Funds, T-Bills, Agency Discount Notes, and Commercial Paper are all instruments used to maximize yield. Phillips suggested the Commercial Paper instrument as an option as it is similar to a CD. He explained that Commercial Paper is high-rated, short term debt issued by corporations. It is a very secure investment with a yield similar to certificates of deposit, as Trustee Spomer favors.

Investment portfolios are one of the only places in government where revenues can be generated without collecting taxes or fees.

Mr. Phillips continued by explaining that the money under Olympus' management is planned to be invested for a longer period of time than most of the money under Mellon's management. Phillips showed the Committee a chart that showed the average U.S. Treasury yield curve from September 1985 to September 2005. The best returns are in the 1.5 to 2.5 year range. Olympus staff reviews this type of information to determine the "sweet spot" on the yield curve that would be the best option for the District in terms of safety but also allow it to earn a higher yield than some of the short-term investments.

Trustee Wong questioned how the District was going to pay for the new construction and still have a sum of money to invest for longer periods. Mr. James replied that he is working with General Services Director Steve Rice to schedule when money will be needed. James said he plans to use budgeted transfers to pay for the construction and leave the money managed by Olympus with them as long as possible to pay the final bills in order to achieve the higher yield.

Trustee Wong also wanted to know if Olympus is paid a flat fee, as is Mellon. Mr. James answered yes. Wong also inquired why the District was using two investment advisors. James replied that there are several reasons. James wanted to use the NVEST program and he wanted to diversify the District's investments.

Trustee Wong also questioned how the fees charged by both asset management companies were calculated. Mr. Phillips replied that the District pays a regular fee based on the amount under management at that time with Olympus. The fee is not based on the number of transactions. Mr. Kasner said Mellon has the same fee structure with the District.

Trustee Sponer asked Mr. James how the decision is made to move money to the NVEST program or Mellon. James replied that he regularly works with Assistant Finance Director, Floresto Cabias, to ensure the District has enough cash flow to operate for several months. If there is additional money available, then James and Cabias make the decision to move the money to either Mellon or Olympus. James said the decision on where to move the money is based upon whether the money to invest will be available for long-term investment. If the money is available for long-term investment, James is putting it in the NVEST program.

Trustee Sponer then asked what Mr. James considered long-term. James replied that, in the case of the District, two years is considered long-term. James reminded Committee members that the Debt Service Fund will be \$0 in five years with the bonds paid off, and in three years the Capital Projects Fund will also be gone. James said that until he receives solid construction numbers, he doesn't feel he can lock up funds for longer than two years.

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Trustee Sponer asked Mr. Phillips what he thought the return would be for the money in the NVEST program. Phillips believed that, based

upon information he had, the District could achieve a return of around 5% on the longer-term investments.

Trustee Sponer asked how often the information is updated. James replied that he receives monthly and quarterly statements.

Trustee Wong questioned Mr. Phillips on how long some NVEST clients have their funds invested. Phillips replied that Clark County has some long-term project funds, such as the Airport, where funds are invested out five and six years. He also has clients similar to the LVCCLD, which have money invested one to two years. The needs of each client are diverse, and each NVEST fund has its own unique requirements. Phillips emphasized that the key is studying cash flow and making sure the money is available when needed.

Trustee Wong then asked how many funds are participating in NVEST. Mr. Phillips responded that there are fifteen participants with over \$300 million in assets. Each participant's fund is segregated as NVEST is not a mutual fund. Trustee Wong also wanted clarification on the ability of Olympus to offer the same depth as Mellon for the investment options. Phillips reiterated that when he speaks of funds in NVEST, he is referring to the money available from the different participants in the NVEST program, not what the investment options are for the participants. Phillips informed Wong that he uses many of the same broker-dealers as Mellon does, ensuring that the District does not reduce its investment options by participating in NVEST.

Public Comment
(Item IV.)

None

Adjournment (Item
V.)

Trustee Sponer moved to adjourn the meeting at 5:50 p.m. There was no opposition and the motion carried.

Respectfully submitted,

Andrea Arthurholtz, Chair